



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

E

LETTER FROM THE EXECUTIVE DIRECTOR

COFFEE MARKET REPORT

January 2007

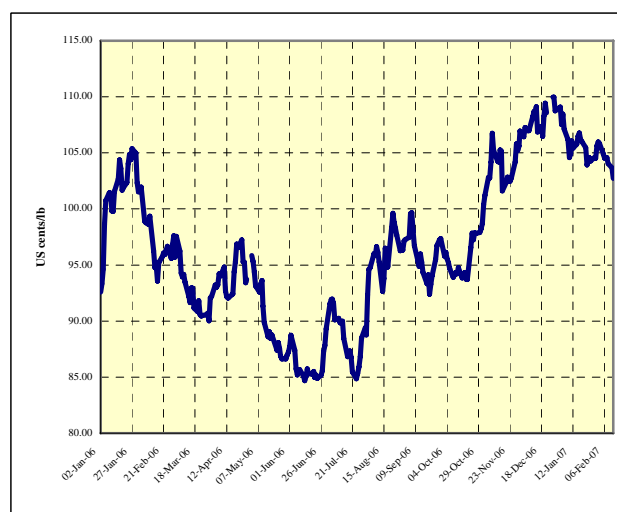
Coffee prices in January were subject to a slight downward adjustment in relation to their December level, particularly in the case of Arabicas. The ICO composite indicator price was down from 109.09 US cents/lb on 2 January to 105.64 US cents/lb on 31 January. The trend remains firm, however, with the average for January 2007 representing an increase of 10.51% in relation to the average for the year 2006 as a whole. Price volatility became less marked on the New York futures market, with standard deviation of daily variation of the average of the 2nd and 3rd positions at 1.23% compared to 1.69% in December 2006. Market fundamentals remain favourable to the maintenance of current price levels, particularly in view of prospects for sustained buoyancy in demand. On the supply side, I have continued to follow developments relating to the “El Niño” phenomenon, which may have a negative impact in some coffee-producing regions. The present Market Report contains a brief analysis of the situation. Finally, the month of January was marked by meetings of the Working Group on the Future of the Agreement. Considerable progress was made by this Group, which will hold a further meeting on 19 and 20 March 2007 in order to move towards a text to be submitted to the International Coffee Council in May 2007.

Price movements

The monthly average of the **ICO composite indicator price** was 105.81 US cents/lb in January 2007 as against 108.01 US cents/lb in December 2006, representing a slight fall of 2.04%. Despite this downward correction, prices remained firm¹. Graph 1 shows changes in the ICO daily composite indicator price since 2 January 2006.

The downward adjustment applied only to Arabicas since the monthly average of indicator prices for Robustas increased by 3.22% compared to their levels in December 2006 (Table 1). Graphs 2 to 5 show changes in daily indicator prices for the four groups of coffee since 1 October 2006.

**Graph 1: Daily composite indicator price
2 January 2006 – 13 February 2007**



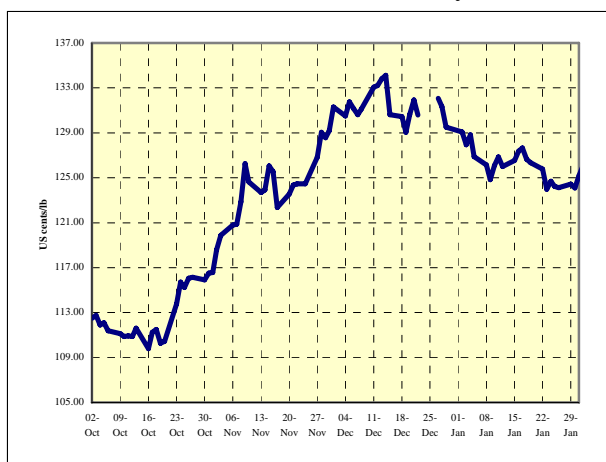
¹ The price registered on 13 February was 102.72 US cents/lb.

Table 1: ICO daily indicator prices and futures prices (US cents/lb) – January 2007

	ICO composite	Colombian Milds	Other Milds	Brazilian Naturals	Robustas	New York*	London*
Jan-07							
02-Jan	109.09	129.09	128.73	115.74	81.91	n.q.	73.21
03-Jan	107.51	127.93	126.59	114.51	80.26	128.13	72.05
04-Jan	108.47	128.81	127.38	115.06	81.71	129.30	73.37
05-Jan	107.11	126.87	125.39	113.76	80.97	124.67	71.71
08-Jan	106.18	126.14	124.60	112.94	79.79	124.38	71.62
09-Jan	104.58	124.82	123.33	111.66	77.56	122.88	69.58
10-Jan	104.92	126.10	124.48	112.34	76.70	125.20	68.81
11-Jan	106.07	126.85	125.20	113.43	78.34	125.15	70.17
12-Jan	105.40	125.99	124.31	112.68	77.97	124.77	69.97
15-Jan	105.79	126.54	124.99	113.36	77.85	Holiday	69.92
16-Jan	106.50	127.36	125.79	114.07	78.47	126.22	70.58
17-Jan	106.79	127.66	125.57	114.02	79.39	126.25	71.44
18-Jan	106.19	126.65	124.79	113.49	79.02	124.30	70.96
19-Jan	106.02	126.34	124.65	113.12	79.04	124.20	71.01
22-Jan	105.46	125.78	124.03	112.11	78.91	121.95	70.90
23-Jan	103.92	123.97	122.43	110.51	77.58	120.30	69.67
24-Jan	104.19	124.69	123.02	110.56	77.63	121.55	70.78
25-Jan	104.57	124.23	122.60	110.69	79.09	120.60	71.19
26-Jan	104.28	124.11	122.51	109.84	79.09	120.92	71.17
29-Jan	104.57	124.42	122.80	110.04	79.46	121.22	71.44
30-Jan	104.51	124.10	122.84	109.86	79.52	121.17	71.64
31-Jan	105.64	125.18	123.72	111.16	80.69	122.10	73.03
average	105.81	126.07	124.53	112.50	79.13	123.76	71.10
2006	95.75	116.80	114.40	103.92	67.55	112.30	59.77
January	101.20	126.92	124.20	114.98	63.39	122.52	57.39
February	97.39	121.31	119.12	109.01	62.98	115.46	55.74
March	92.76	116.01	113.66	103.92	59.60	109.72	52.22
April	94.20	117.87	115.42	105.49	60.55	112.08	53.67
May	90.00	111.81	109.36	99.29	60.08	106.53	53.05
June	86.04	105.83	103.15	93.27	60.23	100.55	53.12
July	88.57	107.85	105.00	94.56	64.49	101.99	57.14
August	95.78	114.14	111.73	100.37	73.59	110.54	63.01
September	95.98	111.88	109.83	99.53	77.11	108.57	67.49
October	95.53	112.67	110.63	99.23	75.17	109.74	66.81
November	103.48	123.95	122.27	110.04	76.79	120.99	69.02
December	108.01	131.41	128.44	117.36	76.67	128.96	68.60
annual averages							
2000	64.24	102.60	87.07	79.86	41.41	94.58	40.11
2001	45.59	72.05	62.28	50.70	27.55	58.86	23.92
2002	47.74	64.91	61.54	45.25	30.02	57.02	25.88
2003	51.91	65.33	64.20	50.31	36.95	65.24	34.11
2004	62.15	81.44	80.47	68.97	35.99	79.53	32.84
2005	89.36	115.73	114.86	102.29	50.55	111.38	46.80
2006	95.75	116.80	114.40	103.92	67.55	112.30	59.77
% variation between Jan-07 and Dec-06	-2.04	-4.06	-3.04	-4.14	3.22	-4.03	3.64
% variation between Jan-07 and Jan-06	4.55	-0.67	0.27	-2.16	24.84	1.02	23.88
% variation between Jan-07 and 2006 average	10.51	7.94	8.86	8.25	17.14	10.20	18.95
volatility (%)							
Jan-06	1.51	1.59	1.65	1.72	1.62	2.03	1.86
Feb-06	1.29	1.34	1.27	1.32	1.80	2.12	2.14
Mar-06	1.08	1.11	1.11	1.25	1.31	1.44	1.33
Apr-06	1.20	1.22	1.26	1.29	1.58	1.86	1.38
May-06	0.86	0.90	0.98	0.95	0.76	1.51	0.99
June-06	0.94	0.91	0.98	0.98	1.20	1.17	1.90
July-06	1.01	0.91	0.86	0.87	1.99	1.45	2.31
Aug-06	1.70	1.58	1.70	1.65	2.29	1.84	2.16
Sep-06	1.16	1.05	1.07	1.22	1.82	1.36	2.16
Oct-06	0.87	1.00	0.97	1.07	1.09	1.14	1.27
Nov-06	1.28	1.23	1.26	1.26	1.78	1.56	1.87
Dec-06	0.90	1.02	1.00	1.09	0.96	1.69	1.19
Jan-07	0.81	0.74	0.76	0.74	1.29	1.23	1.33

*Averages of 2nd and 3rd positions

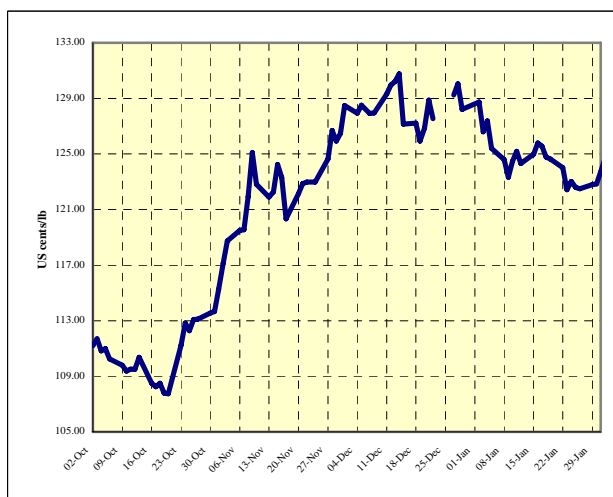
Graph 2: Daily indicator prices for Colombian Milds 1 October 2006 – 31 January 2007



Graph 4: Daily indicator prices for Brazilian Naturals 1 October 2006 – 31 January 2007



Graph 3: Daily indicator prices for Other Milds 1 October 2006 – 31 January 2007



Graph 5: Daily indicator prices for Robustas 1 October 2006 – 31 January 2007



Market fundamentals

The figure for **world production** in crop year 2007/08 indicated in my report for December, on the basis of the first estimates provided by Brazil where the crop year will begin in April 2007, remains unchanged at between 109 and 112 million bags. In fact, Brazilian Arabica production, which is characterized by a marked biennial cycle in which an abundant crop in one year is followed by a reduced crop in the next, will be lower in crop year 2007/08. The first estimates of the Brazilian authorities indicate a production level of between 31.1 and

32.3 million bags. Crop year 2006/07 is still under way in many producing countries. The total production level will be around 121.57 million bags, compared to 109.42 million bags in 2005/06 (Table 2). Crop year 2006/07 was marked by increased production in Brazil, Vietnam, Mexico and many other countries. With the development of the “El Niño” phenomenon, however, which causes climate changes in many coffee-producing countries, we must expect a fall in production in some regions likely to be more seriously affected.

The “El Niño” weather phenomenon

The “El Niño” phenomenon refers to the occasional dysfunction of the weather system centred in the equatorial Pacific regions. This dysfunction, which is caused by the abnormal warming of coastal waters of Peru and Ecuador in the eastern Pacific Ocean and the abnormal cooling of the coastal waters in the western Pacific Ocean (Indonesia, Australia, Papua New Guinea), has an effect on rainfall patterns. The advent of this “mysterious force of nature” in 1997/98 (the El Niño” event of 2002/03 was less dramatic) had impacts on weather in various parts of the globe, one of the most noticeable being heavy rainfall in the Pacific, causing flooding in Peru, Ecuador, Colombia and the Gulf of Mexico. In the western Pacific, the phenomenon was responsible for drought conditions and bush fires in Indonesia, Papua New Guinea and Australia. According to the World Meteorological Organization (WMO), the current “El Niño” event, which has been developing since July 2006, has a moderate impact on the Pacific but its effects are already being felt in the severe drought conditions affecting Australia and the heavy rainfall in eastern Africa. Flooding continues in South America, particularly in Brazil, where the States of São Paulo and Minas Gerais are seriously affected. The phenomenon is likely to continue, at least during the first quarter of this year. It is still too early to evaluate the impact of the current event in coffee-producing regions but we should expect human and ecological consequences caused by climate fluctuations, as well as an impact on infrastructures in various coffee-producing regions. In any event it may be noted that the repercussions of the 1997/98 event on coffee production included damage to infrastructures, a fall of around 3.18% in world production for crop year 1997/98 and an increase of 7.93% in 1998/99. At the regional level, production for crop year 1997/98 fell by 10.81% and 21.96% in South America and Africa, respectively, while it increased by 3.83% in Mexico & Central America and by 7% in Asia & Oceania. In the case of crop year 1998/99, production increased by 33.32% in South America and 15.41% in Africa. In Asia & Oceania and in Mexico & Central America, production fell by 12.26% and 17.50% respectively.

Table 2: Production in selected exporting countries

Crop year commencing					% change
	2003	2004	2005	2006	2005-2006
TOTAL	103 673	115 843	109 428	121 575	11.10
<i>Africa</i>	<i>13 856</i>	<i>14 762</i>	<i>13 194</i>	<i>15 592</i>	<i>18.17</i>
Cameroon	900	727	849	750	-11.66
Côte d'Ivoire	2 689	2 328	2 166	2 350	8.49
Ethiopia	3 874	5 000	4 500	5 500	22.22
Kenya	673	756	713	850	19.21
Tanzania	611	763	720	917	27.36
Uganda	2 598	2 593	2 159	2 500	15.79
Others	2 511	2 595	2 087	2 725	30.57
<i>Arabicas</i>	<i>6 790</i>	<i>8 275</i>	<i>7 078</i>	<i>8 634</i>	<i>21.98</i>
<i>Robustas</i>	<i>7 066</i>	<i>6 487</i>	<i>6 116</i>	<i>6 958</i>	<i>13.77</i>
<i>Asia & Oceania</i>	<i>28 761</i>	<i>28 812</i>	<i>29 708</i>	<i>29 015</i>	<i>-2.33</i>
India	4 508	4 672	4 617	5 005	8.40
Indonesia	6 571	7 536	8 659	6 850	-20.89
Papua New Guinea	1 155	997	1 268	1 125	-11.28
Thailand	827	884	1 000	1 000	0.00
Vietnam	15 230	14 174	13 499	15 000	11.12
Others	470	549	665	35	-94.74
<i>Arabicas</i>	<i>4 108</i>	<i>4 093</i>	<i>4 130</i>	<i>3 571</i>	<i>-13.54</i>
<i>Robustas</i>	<i>24 653</i>	<i>24 719</i>	<i>25 578</i>	<i>25 444</i>	<i>-0.52</i>
<i>Mexico & Central America</i>	<i>16 767</i>	<i>15 815</i>	<i>17 117</i>	<i>17 331</i>	<i>1.25</i>
Costa Rica	1 783	1 887	1 778	1 832	3.04
El Salvador	1 477	1 438	1 488	1 374	-7.66
Guatemala	3 610	3 703	3 675	4 000	8.84
Honduras	2 968	2 575	3 204	2 700	-15.73
Mexico	4 200	3 867	4 000	4 500	12.50
Nicaragua	1 546	1 130	1 718	1 300	-24.33
Others	1 183	1 215	1 254	1 625	29.59
<i>Arabicas</i>	<i>16 748</i>	<i>15 797</i>	<i>17 099</i>	<i>17 280</i>	<i>1.06</i>
<i>Robustas</i>	<i>19</i>	<i>18</i>	<i>18</i>	<i>51</i>	<i>183.33</i>
<i>South America</i>	<i>44 289</i>	<i>56 454</i>	<i>49 409</i>	<i>59 637</i>	<i>20.70</i>
Brazil	28 787	39 276	32 945	42 512	29.04
Colombia	11 197	12 042	11 959	11 600	-3.00
Ecuador	766	938	1 138	1 000	-12.13
Others	3 539	4 198	3 367	4 525	34.39
<i>Arabicas</i>	<i>37 196</i>	<i>51 309</i>	<i>41 028</i>	<i>49 894</i>	<i>21.61</i>
<i>Robustas</i>	<i>7 093</i>	<i>5 145</i>	<i>8 381</i>	<i>9 743</i>	<i>16.25</i>
TOTAL	103 673	115 843	109 428	121 575	11.10
Colombian Milds	12 352	13 339	13 150	13 019	-1.00
Other Milds	26 518	26 533	26 372	27 636	4.79
Brazilian Naturals	25 977	39 607	29 818	38 730	29.89
Robustas	38 826	36 364	40 088	42 190	5.24
Arabicas	64 847	79 479	69 340	79 385	14.49
Robustas	38 826	36 364	40 088	42 190	5.24
TOTAL	100.00	100.00	100.00	100.00	
Colombian Milds	11.91	11.51	12.02	10.71	
Other Milds	25.58	22.90	24.10	22.73	
Brazilian Naturals	25.06	34.19	27.25	31.86	
Robustas	37.45	31.39	36.63	34.70	
Arabicas	62.55	68.61	63.37	65.30	
Robustas	37.45	31.39	36.63	34.70	

In thousand bags

Exports during December 2006 totalled 7.85 million bags, bringing total exports for the last quarter of the year to 22.84 million bags compared to 19.57 million bags for the same period in 2005. Total exports for 2006 were 91.08 million bags compared to 87.20 million bags in 2005 (Table 3).

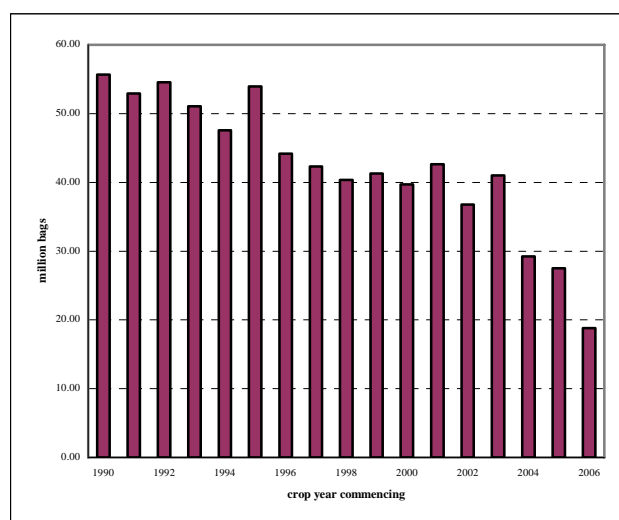
Table 3: Exports in 2005 and 2006

	2005	2006	% variation
TOTAL	87.20	91.08	4.45
Colombian Milds	12.00	12.02	0.16
Other Milds	18.66	20.99	12.47
Brazilian Naturals	26.40	28.00	6.04
Robustas	30.13	30.07	-0.20
Arabicas	57.07	61.01	6.90
Robustas	30.13	30.07	-0.20

In million bags

The volume of **opening stocks in exporting countries** in crop year 2006/07 was around 19 million bags on 1 October 2006 compared to the level of 27.51 million bags for opening stocks in 2005/06 (Graph 6). It should be noted that according to CONAB opening stocks in Brazil totalled nearly 10 million bags on 1 April 2006. Given the large volume of Brazilian exports in 2006 (more than 27 million bags), the country will have a historically low level of stocks at the beginning of crop year 2007/08 on 1 April 2007.

**Graph 6: Opening stocks in exporting countries
Crop commencing 1990 to 2006**



Stocks of green coffee in importing countries, including free ports, are estimated at around 19.5 million bags at the end of June 2006 compared to 22.8 million bags in 2005. At the end of January 2007, the level of certified stocks in the London (LIFFE) futures markets was up in view of the availability on the market of new crop coffee from Vietnam and Africa. On the other hand, certified stocks in the New York futures market (NYBOT) were down (Table 4).

Table 4: LIFFE and NYBOT certified stocks

End of	LIFFE	NYBOT
Jan-00	n.a.	0.98
Jan-01	n.a.	3.73
Jan-02	2.68	2.80
Jan-03	2.62	2.87
Jan-04	2.79	4.42
Jan-05	3.88	4.51
Jan-06	3.51	3.70
Feb-06	3.26	3.61
Mar-06	3.01	3.49
Apr-06	2.77	3.36
May-06	2.29	3.35
Jun-06	2.11	3.30
Jul-06	1.79	3.36
Aug-06	1.46	3.46
Sep-06	1.82	3.60
Oct-06	1.97	3.66
Nov-06	1.88	3.62
Dec-06	1.61	4.21
Jan-07	2.23	3.73

In million bags

World consumption in 2006 is estimated at around 116 million bags compared to around 115 million bags in 2005. Estimates for 2007 are of 118 million bags or more assuming a growth rate of at least 1.7% per annum. In 2006, **domestic consumption in exporting countries** accounted for around 31 million bags and **consumption in importing countries** for around 85 million bags. Table 5 shows consumption in selected importing countries. Table 6, showing per capita consumption in selected importing countries, indicates that the Scandinavian countries (Finland, Denmark, Sweden and Norway) continue to be the areas with the highest consumption.

Table 5: Consumption in selected importing countries (Calendar years 2001 – 2005)

	2001	2002	2003	2004	2005
TOTAL	64 997	65 162	66 719	69 162	65 864
<i>European Community</i>	<i>37 188</i>	<i>37 901</i>	<i>38 349</i>	<i>39 846</i>	<i>36 034</i>
Austria	1 049	952	757	1 033	810
Belgium	921	1 527	1 623	1 334	1 211
Cyprus	53	52	54	64	70
Czech Republic	659	648	556	546	534
Denmark	863	806	725	849	814
Estonia	110	112	118	133	150
Finland	952	975	971	1 041	1 112
France	5 241	5 492	5 429	5 001	5 053
Germany	9 125	8 334	9 366	10 277	8 356
Greece	578	864	1 003	928	911
Hungary	740	709	611	561	392
Ireland	147	137	151	217	226
Italy 1/	5 029	5 621	5 198	5 894	4 360
Latvia	156	151	169	167	166
Lithuania	214	212	189	234	251
Luxembourg	66	108	96	124	96
Malta	15	26	34	26	23
Netherlands	1 732	1 641	1 827	1 599	1 454
Poland	1 958	1 952	2 096	2 180	2 178
Portugal	768	739	678	701	782
Slovakia	308	298	318	319	368
Slovenia	193	201	182	195	200
Spain	2 869	2 907	2 826	2 791	2 959
Sweden	1 259	1 235	1 181	1 242	1 162
United Kingdom	2 185	2 201	2 189	2 391	2 396
Japan	6 936	6 875	6 770	7 117	7 224
Norway	711	692	683	709	743
Switzerland	819	824	845	712	1 105
USA	19 343	18 871	20 072	20 778	20 759

In thousand bags
1/ Under correspondence

Table 6: Per capita consumption in selected importing countries (Calendar years 2001 – 2005)

	2001	2002	2003	2004	2005
TOTAL	4.43	4.42	4.50	4.64	4.40
<i>European Community</i>	<i>4.91</i>	<i>4.99</i>	<i>5.04</i>	<i>5.22</i>	<i>4.71</i>
Austria	7.76	7.02	5.57	7.59	5.94
Belgium/Luxembourg	5.35	8.85	9.38	7.70	6.97
Cyprus	3.98	3.85	3.98	4.66	4.97
Czech Republic	3.85	3.80	3.26	3.20	3.14
Denmark	9.66	8.98	8.06	9.41	9.00
Estonia	4.84	4.97	5.27	5.97	6.75
Finland	11.01	11.22	11.16	11.92	12.70
France	5.28	5.51	5.43	4.98	5.01
Germany	6.64	6.06	6.81	7.46	6.06
Greece	3.15	4.69	5.44	5.01	4.91
Hungary	4.35	4.18	3.61	3.32	2.33
Ireland	2.29	2.13	2.26	3.19	3.26
Italy 1/	5.22	5.83	5.38	6.09	4.50
Latvia	3.96	3.88	4.36	4.32	4.31
Lithuania	3.68	3.67	3.28	4.09	4.39
Malta	2.32	4.04	5.07	3.83	3.52
Netherlands	6.50	6.13	6.79	5.91	5.35
Poland	3.04	3.03	3.26	3.39	3.39
Portugal	4.48	4.29	3.92	4.03	4.47
Slovakia	3.43	3.31	3.53	3.55	4.09
Slovenia	5.87	6.12	5.55	5.94	6.08
Spain	4.19	4.19	4.02	3.93	4.12
Sweden	8.49	8.30	7.90	8.27	7.71
United Kingdom	2.23	2.24	2.22	2.41	2.41
Japan	3.27	3.23	3.18	3.34	3.38
Norway	9.41	9.13	8.95	9.25	9.65
Switzerland	6.83	6.86	7.01	5.90	9.14
USA	4.04	3.91	4.12	4.22	4.18

In kilogrammes
1/ Under correspondence

In conclusion, I would like to indicate that price developments in 2007 will reflect the situation of balance between supply and demand on the market, but any analysis could be affected by speculative movements that may accentuate price volatility as well as perceptions of the possible impact of climatic phenomena like “El Niño”. Regarding the process of negotiation on the future of the ICA, I would like to convey that significant progress was made by the Working Group at its meeting in January, in an atmosphere of constructive cooperation.